

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 58002

SNOHOMISH COUNTY, WASHINGTON

January 1, 1995 Through December 31, 1995

Issue Date: January 24, 1997

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SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

The Honorable Robert J. Drewel, County Executive
and Members of the County Council
Snohomish County
Everett, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 21, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Snohomish County is the responsibility of the county's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the county's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the county complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the county's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the county and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

We also noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the county's management in our reports on general requirements and specific requirements for major programs and in the Schedule of Federal Findings.

This report is intended for the information of management and the county executive and the county council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

June 21, 1996

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level**

The Honorable Robert J. Drewel, County Executive
and Members of the County Council
Snohomish County
Everett, Washington

We have audited the general-purpose financial statements of Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 21, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the county, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted reportable conditions that we believe to be material weaknesses, which are identified in the Schedule of Findings accompanying this report.

We also noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the county's management in our reports on general requirements and specific requirements for major programs and in the Schedule of Federal Findings.

This report is intended for the information of management and the county executive and the county council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

June 21, 1996

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The Treasurer Should Improve Controls Over Cash And Investments

During our audit of cash receipts and investments in the Snohomish County Treasurer's Office, we found several areas where internal controls are weak. The issues discussed below increase the risk that errors and/or theft could occur and not be detected in a timely manner.

- a. Daily deposits are not reconciled to receipts by mode of payment. This reconciliation is not done because the cash receipting system does not record this information. Reconciling receipts by mode of payment increases the assurance that all cash collected is deposited intact.

We recommend that management reconcile all bank deposits to receipts by mode of payment.

- b. One person opens the mail and no log is kept of payments received in this manner. Money is forwarded to other treasurer's office staff for review of over or under payments before being forwarded to the cashier. When one person opens the mail and forwards money received to other employees with no record of total funds involved, no one is accountable for how much money should be deposited with the cashier.

We recommend that two people open mail together. Both should sign a log or calculator tape of the total received in the mail each day identifying any cash received. This log should be given to the cashier along with the money as soon as possible and the cashier should reconcile the log and the receipts. Further, the log should be retained as part of the deposit records.

- c. No one independent of the person writing refund checks reviews the activity in the treasurer's checking account. Reconciliation of the monthly bank statement to the treasurer's account record "Cash Book" does not include such a review. The lead cashier is also responsible for writing refund checks from this account. Without an independent review, there is no assurance that all transactions are appropriate and recorded accurately.

We recommend someone independent of writing checks review activity in the treasurer's checking account. Additionally, someone independent of the cashier should be responsible for writing checks from this account.

- d. The duties of billing, receipting mailed in payments, and review of delinquent assessments for local improvement districts (LID's) are done by the same two employees. Segregating receipting from billing and review of delinquent accounts increases the assurance that all money collected is deposited.

We recommend the treasurer segregate the duties of receipting LID payments, from the billing and delinquent account reviews.

- e. Controls over property tax payments received close to the semi-annual due dates, April 30 and October 30, are weak. First, many payments come through the mail and receipting these payments is typically not completed until two weeks after the payment deadlines. Meanwhile, boxes of unreceipted checks are stored in an unsecured area of the treasurer's office. Second, as these payment deadlines approach, some treasurer's employees collect the payments in the county garage for convenience of taxpayers. Further, those payments are not receipted by these employees but are later carried to the treasurer's cashier by one person for formal receipting. The volume of tax payments received close to these deadlines is enormous, presenting problems for staff in the time and manner in which they receipt payments. However, when checks are not accounted for upon receipt and left unattended, the risk of theft is quite high. Also, when payments received in the garage are not receipted and in the custody of one employee, that person is not accountable for how much they should deposit with the cashier. This lack of adequate controls over receipts during these periods, places the county's funds at risk of loss and the treasurer's employees at risk of allegations of theft should such losses occur.

We recommend the treasurer immediately store unreceipted property tax payments in a secure location where access is limited. While better security for undeposited money is important all year, it is crucial when the semi-annual tax payment deadlines approach. We also recommend two people accept payments in the county garage and deliver the money to the treasurer's cashier.

- f. The accounting system for tracking investment transactions is a manual system which does not provide an efficient accounting or presentation of investment balances. An investment detail ledger is prepared annually, using database software. However, this investment ledger does not record bank account numbers or security CUSIP numbers providing specific identification of all investments.

We recommend the treasurer maintain a current investment subsidiary ledger. Further, this ledger should include the specific bank account and security CUSIP numbers of each investment.

Auditee's Response

We received the following response to our first two findings in a letter dated November 21, 1996, from county treasurer Bob Dantini.

a. With respect to the reconciliation of receipts by mode of payment (i.e., cash and checks), we have recently instituted office procedures so that all receipts are reconciled by mode of payment for each cashier having daily activity.

b. With respect to internal control procedures over the incoming mail, we will be reviewing our internal procedures and the resources available to accomplish this, in view of the volumes of mail received by this office, particularly during the tax "rush" period. During the tax "rush" periods every effort is made to promptly deposit thousands of tax statement payments so that the receipts deposited may begin to generate interest income for the County. While we recognize the need for more internal control procedures, we also need to balance this with the resources available to the Treasurer's office in order to accomplish this as well as the desire to promptly deposit receipts.

c. *On the matter of writing refund checks in the Treasurer's office, we will be installing procedures within the next month, to remove the check writing function from the cashier's responsibilities, and installing proper authorization and review controls. We agree that there is a need to review activity in the Treasurer's checking account.*

d. *With regard to the duties of billing, receipting mail payments and review of delinquent assessments for LIDs, we will review the current duties of the two employees responsible for LIDs and also current office procedures with the objective of segregating the receipting function from other responsibilities, subject to available resources within the Treasurer's office.*

e. *With respect to the controls over property tax payments, we have recently instituted office procedures for storing unreceipted property tax payments in a secure location and will begin to institute procedures for the physical transfer of tax payments paid at the garage to the cashier's office by two persons.*

f. *As for the tracking of investment transactions, we have recently installed new software for investment management and plan to have it fully functional by January 1. The software has the capability to record bank account and CUSIP numbers for specific identification of the investments as well as provide an interface with the General Ledger.*

2. The Treasurer Should Reconcile Warrants Payable For School Districts

The county treasurer still has not resolved the unreconciled difference between the county's records of outstanding warrants for school districts to bank statements. This condition has existed since the county converted its warrant ledgers from a manual system to an automated system in 1995. While the current automated system has the mechanisms to identify differences when they occur and requiring a reconciliation, the records still have an unreconciled difference representing the differences that existed in its manual system when it converted to the automated system. We reported this condition in our prior audit reports Nos. 55475, 56289, and 57091. As a result, the balance of Warrants Payable reported in the school districts' financial statements may be inaccurate and accounting control over disbursements is weak.

The county treasurer is the ex officio treasurer of school districts in Snohomish County per Chapter 28A.510.270 RCW. The duties of the treasurer under that statute require a reconciliation of the school districts' outstanding warrants. Further, Snohomish County Code, Section 2.100.080(2)(b) reserves to the county treasurer:

. . . All powers and duties with respect to the collection, disbursement and management of junior taxing district funds

County treasurer's office has been unable to allocate the financial management resources necessary to fully investigate and resolve the unreconciled difference carried over in the 1995 conversion from its manual system to an automated warrants payable system.

We again recommend the county treasurer's office continues to work toward reconciling and resolving this difference in its warrants payable balances.

Auditee's Response

The Treasurer's office continues to reconcile the differences between the outstanding warrants for the districts and the balance of Warrants Payable reported in the school districts' financial statements. Such a reconciliation needs the full cooperation of each district to accomplish, since they are the source

of warrant issuance, cancellations, reissues and any account adjustments. While we continue to work toward reconciliation of the differences, we feel the amount of the cumulative differences are not material to a fair presentation of the financial statements and look to the State Auditor's office for guidance as to other potential solutions.

On behalf of the County, I wish to extend my thanks for the efforts the State Auditor's Office has made in pointing out improvements and efficiencies that can be made to reduce the risk of loss or misapplication of County funds.

3. Everett District Court Management Should Monitor High Risk Transactions

At Everett District Court, cashiers can adjust accounts receivable amounts for cases on file in the District Court Information System (DISCIS). This includes the ability to write off receivables entirely, without a supervisor's approval. Cashiers also have the opportunity to adjust receipted amounts in the DISCIS system.

As of January 3, 1994, all DISCIS courts were able to run "audit reports" for review by court management. These reports include transactions for: Accounts Receivable Adjustments, Non-Cash Credits, Adjusted Receipts, and other adjustments. However, the court administrator does not review these audit reports to ensure that such adjustments are appropriate.

When the duties of cashiering and posting adjustments to receivables or receipts are not separate, cashiers are not accountable to the court for any particular amount received on a defendant's account.

We recommend the court administrator print and review the audit reports daily, follow up on adjustments as necessary, and retain them with evidence of review.

Auditee's Response

We received the following response to our finding on the Everett District Court, in a letter dated November 13, 1996, from court administrator, Lois Eaden.

Management Monitoring of High Risk Transactions

The Court recognizes the potential risk arising from cashiers being able to adjust accounts receivable amounts in DISCIS. Effective immediately, the Court Administrator will print and review the "audit reports" at least weekly, and follow up as necessary. The reports printed will include: Accounts Receivable Adjustments, Non-Cash Credits, and Adjusted Receipts. While the recommendation was to print and review the audit reports daily, that schedule is not feasible because I am not in the office every day.

4. The Snohomish County Sheriff's Office Should Track Traffic Citations From Receipt To Disposition

During our review of traffic citations issued by two Snohomish County Sheriffs' precincts, we found that no one compares citations issued with those received by the appropriate District Court. Furthermore, we found that no one reviews citations to ensure that those missing are detected, or that those voided are appropriate. Lastly, we found that finance department officials do not review the disposition of citations.

RCW 46.64.010 states:

The chief administrative officer of every traffic enforcement agency shall require the return to him of a copy of every traffic citation issued by an officer under his supervision to an alleged violator of any traffic law or ordinance and of all copies of every traffic citation which has been spoiled or upon which any entry has been made and not issued to an alleged violator . . .

. . . Such chief administrative officer shall also maintain or cause to be maintained in connection with every traffic citation issued by an officer under his supervision a record of the disposition of the charge by the court or its traffic violation bureau in which the original or copy of the traffic citation was deposited

RCW 46.64.010 also states:

. . . Every record of traffic citations required in this section shall be audited monthly by the appropriate fiscal officer of the government agency to which the traffic enforcement agency is responsible

Since the Snohomish County Sheriff's Office does not ensure that all citations are properly issued, or that citations issued receive proper disposition with the court, missing citations cannot be detected in a timely manner. Absent required controls the county cannot be assured that the courts will have the opportunity to collect all traffic fines owed, or require all mandatory court appearances by defendants.

We recommend that the Snohomish County Sheriff's Office establish procedures to ensure that all citations issued receive some formal disposition with the courts. Procedures should also include identifying missing and voided citations, and review to determine if their treatment was appropriate.

We also recommend that the Snohomish County Finance Department give the appropriate oversight, as required by statute.

Auditee's Response

We received the following response to our finding on the sheriff's office in a letter dated November 14, 1996, from Snohomish County Sheriff, R. R. Bart.

The Snohomish County Sheriff's Office will develop and implement procedures to track traffic citations from receipt to delivery to the courts, and to record the courts' disposition of traffic citations upon their return to the Sheriff's Office by the court. These procedures will include the identification of missing and voided citations as well as appropriate supervisory review of voided citations. Please note that we decline responsibility for "formal disposition with the courts." The Sheriff has no legal authority over procedural matters of the courts. Furthermore, R.C.W. 46.64.010 does not require the Sheriff to ensure "formal disposition with the courts." The Sheriff is only required to maintain "a record of the disposition of the charge by the court." Therefore, our procedures will include this record-keeping requirement to the extent that the citations are returned by the courts to the Sheriff's Office. We cannot be held responsible for citations delivered to the court but not returned.

5. County Officials Should Ensure Cash Is Reported Accurately In The Accounting Records

Cash according to the Snohomish County Treasurer's records "Cash Book" is only reconciled to the general ledger once a year. The general ledger is the formal accounting record used in preparing the county's annual financial statements for the public. For the December 31, 1995 reconciliation, an adjustment of \$1,924,732 was required to reduce cash in the ledger to balance with the treasurer's records and actual cash on hand. This reconciliation for year end 1995 was not complete until May 1996.

Without timely reconciliation from cash on the county's books to the treasurer's records, management cannot be assured that cash in the general ledger is accurate. This can have serious repercussions on budgeting, the accuracy of information provided to management and the public, and daily financial management decisions.

We recommend that county officials reconcile cash in the general ledger with the treasurer's **Cash Book**, monthly.

Auditee's Response

We received the following response to our finding on reconciling cash in the general ledger with the treasurer's records, in a letter dated December 18, 1996, from Ken Johnson of the county budget and finance department.

In the draft of findings from the 1995 audit of our financial records, your office has recommended that County officials reconcile cash in the general ledger with the Treasurer's cash book monthly.

I would like to respond that LGFS general ledger cash is reconciled monthly to the Treasurer's cash book. However, during 1995, with the press of other priorities, reconciling items from those monthly balancings were not researched and the resulting corrections not entered. Thus, at year end, the research and correcting entries on those reconciling items needed to be completed before cash activity schedules could be drafted.

By the end of 1996, LGFS general ledger cash and the treasurer cash book will be reconciled, researched and all correcting entries will be entered.

Auditor's Concluding Remarks

We appreciate the effort put forth by county officials in assisting us during our audit and also to provide timely responses to these findings. We look forward to working with them during our next audit.

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

The Honorable Robert J. Drewel, County Executive
and Members of the County Council
Snohomish County
Everett, Washington

We have audited the accompanying general-purpose financial statements of Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Snohomish County at December 31, 1995, and the results of its operations and cash flows of its proprietary fund types for the fiscal year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of State Financial Assistance listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Snohomish County.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 21, 1996, on our consideration of the county's internal control structure and a report dated June 21, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

June 21, 1996

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Additional Information Regarding Audits Of Special Purpose Districts Included In
Trust And Agency Funds**

The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.

Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 districts associated with the county's financial statements are:

Public Hospital District No. 3
Alderwood Water District
Public Health District
Port of Everett
Sno-Isle Inter County Library
Fire District No. 1
Silver Lake Water District
Mukilteo Water District
Fire District No. 7
Lake Stevens Sewer District
Police Staff and Auxilliary Service Center
Fire District No. 11
Port of Edmonds
Olympic View Water District
Fire District No. 4
Sno Com
Oly. Terr. Sewer District
Fire District No. 8
Public Hospital District No. 2
Monroe Fire District No. 3
Fire District No. 12
City of Marysville/Fire District No. 12
Public Hospital District No. 1
SNO PAC (Sno. Police Aux. Ctr.)
Fire District No. 17
Fire District No. 14
Fire District No. 10
Emergency Service Coord. Agency ESCA
Fire District No. 20
Department of Emergency Management

Category 2 Districts

All special purpose districts which had total revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts
Public Hospital Districts
Irrigation Districts
Water Districts
Sewer Districts

Water/Sewer Districts
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

Monroe Parks and Recreation District
Fire District No. 26
Fire District No. 15
Fire District No. 5
Law Library
Fire District No. 21
Fire District No. 3
Fire District No. 18
Fire District No. 24
Fire District No. 22
Drainage District No. 8
Fire District No. 16
Marshland Flood Control
Fire District No. 19
Drainage District No. 4
Emergency Services Training
Dike Improvement District No. 1
Blue Spruce Water District
Fire District No. 28
French Slough Flood Control
Startup Water District
Drainage District No. 6
Fire District No. 25
Stillaguamish Flood Control

Category 3 Districts

All special purpose districts which had total revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

Fire District No. 23
Dike and Drainage Improvement District No. 2
Dike District No. 3
Fire District No. 27
Drainage District No. 4
Drainage District No. 13
Drainage and Dike District No. 7
Dike District No. 4
Dike District No. 5

Drainage District No. 12
Fire District No. 9
Civil Actions Filing
Small Claims Filing

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

The Honorable Robert J. Drewel, County Executive
and Members of the County Council
Snohomish County
Everett, Washington

We have audited the general-purpose financial statements of Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 21, 1996. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Snohomish County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

June 21, 1996

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

The Honorable Robert J. Drewel, County Executive
and Members of the County Council
Snohomish County
Everett, Washington

We have audited the general-purpose financial statements of Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 21, 1996.

We have applied procedures to test the county's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow general requirements that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the program. The results of our tests of compliance disclosed a material instance of noncompliance that is described in the accompanying Schedule of Federal Findings, the effects of which have been corrected in the financial statements of Snohomish County.

We considered the material instance of noncompliance in forming our opinion on whether the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated June 21, 1996, on those financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, Snohomish County complied, in all material respects, with the requirements referred to in the second paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe the county had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the county executive and the county council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 7, 1996

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs**

The Honorable Robert J. Drewel, County Executive
and Members of the County Council
Snohomish County
Everett, Washington

We have audited the general-purpose financial statements of Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 21, 1996.

We have also audited the county's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to approvals, environmental reviews, program income, subrecipient agreements, outreach, equitable treatment, payment to energy suppliers, hearings, absent parent locate services, paternity establishment, expenditure of allotments within the proper period, payment vouchers, right of way, extensions, and materials sampling and testing as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*, *Catalog of Federal Domestic Assistance*, and grant agreement/contract
- claims for advances and reimbursements
- amounts claimed or used for matching

The management of the county is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the county's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for the CDBG and HOME Programs funded by the U.S. Department of Housing and Urban Development disclosed that the county did not comply with the

requirement that they submit timely financial reports to the grantor. In our opinion, it is necessary for the county to comply with the requirement for the major programs listed above.

We considered the instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the instance of noncompliance with the requirements applicable to the CDBG and HOME Programs funded by the U.S. Department of Housing and Urban Development referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Federal Findings, Snohomish County complied, in all material respects, with the requirements referred to in the second paragraph that are applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995.

This report is intended for the information of management and the county executive and the county council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 7, 1996

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

The Honorable Robert J. Drewel, County Executive
and Members of the County Council
Snohomish County
Everett, Washington

We have audited the general-purpose financial statements of Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 21, 1996.

In connection with our audit of the financial statements of the county and with our consideration of the county's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Snohomish County had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the county executive and the county council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 7, 1996

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

The Honorable Robert J. Drewel, County Executive
and Members of the County Council
Snohomish County
Everett, Washington

We have audited the general-purpose financial statements of Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated June 21, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated November 7, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the county complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the county's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated June 21, 1996.

The management of the county is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - Property, plant, and equipment
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure category was determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Inventory control

During the fiscal year ended December 31, 1995, the county expended 84 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the county's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the county's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Federal Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses as defined above. However, we noted reportable conditions involving the accounting and/or administrative internal control structure and its operation that we believe to be material weaknesses as defined above. The conditions, which are identified in the Schedule of Federal Findings accompanying this report, considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the county's compliance with requirements applicable to its major federal financial assistance programs for the fiscal year ended December 31, 1995, and this report does not affect our report thereon dated November 7, 1996.

This report is intended for the information of management and the county executive and the county council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

November 7, 1996

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Federal Findings

1. County Officials Should Monitor Subrecipients Of Federal HUD Funds

During 1995, Snohomish County passed through \$3.7 million in federal funds from the U.S. Department of Housing and Urban Development (HUD) to numerous not-for-profit agencies. To accomplish this, the county passed through more than \$25,000 to each of 27 not-for-profits, as part of their CDBG and HOME programs. County staff either had not collected current audit reports or failed to review reports on hand for 11 out of the 27 not-for-profit agencies.

The *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* "Common Rule," Subpart C, Paragraph .26(b) states in part:

State or local governments . . . that receive Federal financial assistance and provide \$25,000 or more of it in a fiscal year to a subgrantee shall:

(1) Determine whether state or local subgrantees have met the audit requirements of the Act and whether subgrantees covered by OMB Circular A-133 . . . have met the audit requirement . . .

(2) Determine whether the subgrantee spent Federal Assistance funds provided in accordance with applicable laws and regulations . . .

(3) Ensure that appropriate corrective action is taken within six months after receipt of the audit report in the instance of noncompliance with Federal laws and regulations.

County staff members were not able to keep up with their current work load, and as a result, delayed a significant amount of subrecipient monitoring. When county officials do not monitor pass-through grants of their federal HUD funds, they cannot be assured that HUD grant money is used in compliance with federal laws and program objectives.

We recommend that county officials improve monitoring for pass-through grants of federal HUD funds.

We also recommend that county officials follow up on grant related problems within six months.

2. County Officials Should Submit Timely Grant Financial Reports To HUD

Snohomish County officials completed their 1995 grant financial reports to the U.S. Department of Housing and Urban Development (HUD) well past the legal deadlines.

Planning department staff completed these reports for the Community Development Block Grant (CDBG) and HOME programs on September 6, 1996, eleven months and eight months past due, respectively.

The CDBG program requires a Grantee Performance Report (GPR) to provide information to the federal government, necessary for program analyses, evaluation and for reporting to Congress. Among other things, the county is required to compile information in the GPR concerning the percentage of CDBG funds spent benefiting low income, and very low income persons, and funds spent for public services, as defined by HUD regulations. This report should cover each fiscal year ending June 30.

The HOME program Annual Performance Report (APR) provides information to the federal government similar to that required for the block grant program. Among other things, the county is required to compile information in the APR concerning the percentage of HOME funds spent benefiting low income, and very low income persons, as defined by HUD. This report should cover each fiscal year ending September 30.

The auditor uses these reports to determine if the county spent HUD funds for allowable purposes as defined by the grant regulations.

24 CFR part 570.507(a) states:

Each performance and evaluation report must contain completed copies of all forms and narratives prescribed by the Secretary . . . Each entitlement grant recipient shall submit a performance and evaluation report: No later than 90 days after the completion of the most recent program year showing the status of all activities as of the end of the program year.

24 CFR part 92.509(b)(1) states:

A participating jurisdiction must submit an annual performance report on its HOME activities to the responsible HUD field office at such time as HUD may prescribe.

HUD Notice CPD 94-30, Paragraphs IV and V, state:

The APR must be submitted annually on or before December 31 and cover program activity undertaken with HOME funds during the recently completed Federal fiscal year.

County staff members were not able to keep up with their current work load, and as a result delayed completing their annual financial reports to HUD.

When county officials do not make accurate and timely financial reports to HUD, the grantor cannot evaluate the county's progress in meeting program objectives. When these reports are not available during our audit fieldwork, it presents an additional cost to the county for the extra time needed to ensure HUD funds were spent on allowable items.

We recommend that county officials submit accurate and timely financial reports to HUD.

Auditee's Response

We received the following response to our findings on grants from the U.S. Department of Housing and Urban Development in a letter dated November 12, 1996, from Planning and Development Services Director Stephen L. Holt.

Thank you for meeting with Planning and Development Services (PDS) personnel to review your draft audit findings for calendar year 1995 and for providing an opportunity to respond to the findings.

Your draft report recommends the County improve their sub-recipient monitoring and that the required program and financial reports be submitted to HUD in a timely manner. In both instances you noted that the problems resulted from existing staff not being able to keep up with their current workloads.

We agree that the reporting and monitoring requirements are very important elements in the responsible administration of these federal programs. Planning and Development Services has recognized the workload problem and, accordingly, requested and was granted County approval to hire three additional program staff. Earlier this year, a project administration position and a fiscal compliance/labor standards assistant position were filled. We are currently re-advertising and completing the selection process to fill a second project administration position. We are also prepared to hire temporary extra help and/or contract for consulting services for special projects or peak periods to the extent that funds are available for such purposes. We also are undertaking a review of staff productivity and will implement any efficiencies resulting therefrom. We are confident these steps will be sufficient to relieve workload problems and resolve the cited issues.

I want to express my appreciation of the cooperative and helpful environment in which State Audit Officials conduct the audit reviews. This approach aids us in our job of ensuring the goals and objectives of the programs are met and will benefit the targeted populations.

Auditor's Concluding Remarks

We appreciate the cooperation we received from staff in the county's Planning and Development Services Department, and also the timely response to these findings. We look forward to working with planning department staff during our next audit.

SNOHOMISH COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

Schedule Of Findings

1. County Officials Should Improve Accounting Controls Over Cash And Investments
Resolution: *Unresolved. See finding in current report.*
2. The Treasurer Should Reconcile Warrants Payable For School Districts
Resolution: *Unresolved. See finding in current report.*
3. County Officials Should File Financial Statements On A Timely Basis
Resolution: *Resolved.*
4. The Sheriff's Office Should Comply With The Uniform Controlled Substances Act
Resolution: *Resolved.*

Schedule Of Federal Findings

1. County Officials Should Improve Accounting For Grants
Resolution: *Resolved.*
2. County Officials Should Comply With Federal Cost Principles
Costs of \$2,943 were questioned.
Resolution: *Resolved.*